MINUTES OF THE
JOINT CAPITAL FACILITIES & ADMINISTRATIVE SERVICES
APPROPRIATIONS SUBCOMMITTEE
WEDNESDAY, FEBRUARY 5, 2003 - 2:00 P.M.
Room 403, State Capitol Building

Members Present:	Sen. Beverly Evans, Committee Co-Chair Rep. Loraine T. Pace, Committee Co-Chair Sen. Greg Bell Rep. Roger Barrus Rep. Ralph Becker Rep. DeMar "Bud" Bowman Rep. D. Gregg Buxton Rep. David Clark Rep. Stephen Clark Rep. Wayne Harper Rep. Brent H. Goodfellow
Members Excused:	Sen. Mike Dmitrich
Staff Present:	Kevin Walthers, Fiscal Analyst Jonathan Ball, Technology Analyst Bonnie Brinton, Committee Secretary
List of those also present:	Keith Stepan, Chair, Building Board Joe Jenkins, Director DFCM Bruce Whitington, Section Leader, DFCM Lynn Vellinga, DAS Finance Camille Anthony, Executive Director, DAS Stephen Fulling, Director, IT David Lamb, Deputy Director, DAS David Fletcher, Deputy Director, DAS Dennis Goreham, Manager, AGRC Alan Edwards, Manager, Risk Management

List of others present on file.

Co-Chair Evans called the meeting to order at 2:10 p.m.

1. <u>Building Board</u>

Co-Chair Evans introduced Keith Stepan, Chair, and expressed appreciation to him and to the Building Board for their outstanding service to the State

Mr. Stepan introduced the Building Board members and acknowledged their service and expertise on this board. He explained the makeup of the Board, the responsibilities of Board, the Priority List, Projects from other funding sources, a Five-Year Plan, and other reports as outlined in the booklet entitled, "Utah State Building Board Five-Year building Program." Chair Stepen expressed his appreciation for the support given by DAS and DFCM.

2. <u>DFCM Operating Budget</u>

Co-Chair Evans presented a short biography on Joe Jenkins, Director.

Kevin Walthers, Fiscal Analyst, explained the consolidation of line items in this department. DFCM's dual role as construction administrator and facility manager creates a diverse role for the agency that traditionally received funding from multiple line items. Beginning with the FY 2004 Recommendation the Analyst will consider these items, along with the Roofing and Paving program previously found in the internal service fund section, as part of the DFCM Administration line item.

The Analyst discussed the funding shift for DFCM in FY 2003. With revenue shortfalls plaguing the state, creative solutions for funding state government were required. One solution involved funding the Department's $3 million operating budget from the projects it manages. Funding came from the Project Reserve Fund and the Contingency Reserve Fund. Mr. Walthers stated that DFCM will have enough money in these funds to finance FY 2004 operations. If no additional development projects are added this year, the Legislature will have to make provisions for funding from other sources in FY 2005.

Mr. Walthers stated that over the last three years the Legislature has funded a significant number of projects that DFCM must manage. This provided an increase in reserve funds that now can be used for operations. DFCM's current workload exceeds 400 projects and $650 million. One of the concerns with moving from state funds to project funds involved the policy shift that funded operations out of reserve funds and future projects. The Analyst believes that staffing level should be independent of funding source - if workload drops to a point where there is not enough work for the entire staff then adjustments should be made regardless of funding source.

Regarding the leasing program of DFCM, Mr. Walthers explained that in addition to managing capital development and improvement projects, the Department leases space for state agencies. The leasing team represents less than 20% of the total administrati9on budget, so the Analyst recommendation includes funding for the leasing program from current sources. The Analyst will continue to work with DFCM to monitor operations and determine if another funding mechanism may be more efficient in the future.

Mr. Jenkins responded to questions from Committee members on revenue bonding leases.

The Analyst stated that regarding the Governor's residence, cuts should be absorbed in operating budgets. In the past several years the Governor's Residence Program included increasing expenses for DPS security. A "$10,000 increase funded in FY 2002 was subsequently reversed, leaving the budget at $81,300. Further across the board reductions in FY 2003 reduced the budget by an additional $3,500. The Analyst believes that DFCM should charge the Governor's line item for any services above the appropriated amounts to keep the program from building negative retained earnings in the Internal Service Fund account.

In the Roofing and Paving Program, costs are dropping as projects increase. The Analyst stated that while the complexity of projects can impact price, the trend is significant enough to show that the new management program at DFCM provides significant value to the taxpayer. When routine and emergency maintenance is performed in a timely fashion, long term costs increases can be avoided.

Mr. Walthers stated that the Hazardous Materials Program is not a new program, but rather one that was previously budgeted as part of the Internal Service Fund and has one FTE.

Mr. Jensen stated that Mr. Walthers had done an excellent job of describing DFCM, what it does and how it is funded. He distributed a handout entitled, "Analysis of DFCM Administration Budget Funding." The Director stated his concern about taking money out of Reserve funds.

MOTION: Rep. Buxton moved to accept the Analyst's recommended budget for the Department of Facilities Construction and Management Administration in the amount of $3,879,500, with 44 FTEs.

The motion passed unanimously with Sen. Dmitrich and Rep. Becker absent for the vote.

Bruce Whitington, Section Leader, DFCM, was introduced, and Co-Chair Evans presented a short biography of him.

Mr. Walthers next discussed DFCM Facility Management in the Internal Service Funds. He cited rate adjustments for Fiscal Year 2003 provided a table which identifies those facilities for which DFCM is requesting a rate change in Fiscal Year 2004. He stated that rate adjustments do not automatically drive increased appropriation. Analysts for affected agencies consider budget needs and available revenue in recommending further increases. If an agency does not receive additional appropriations, they must fund increases from existing budgets.

The Analyst discussed FTE counts within DFCM. The Division of Finance defines an FTE as 2,808 hours worked. If two people work 1,040 hours each, they are considered to be one FTE. DFCM's authorized FTE count is based on Legislative approval of full-time, permanent employees. During the summer months DFCM adds temporary employees for grounds maintenance at the Capitol and other large state facilities. The current calculated FTE count of 138 is the result of only two months of summer in the current fiscal year and a reduction in grounds crew to alleviate budget pressures. The Analyst believes that DFCM is using temporary employees wisely and recommends that the approved FTE count as required by statute be focused on permanent employees.

In FY 2002, the Legislature approved intent language which allowed DFCM's internal service fund to add FTEs beyond the authorized level if new facilities come on line or maintenance agreements are requested. During the course of the year, DFCM FTE counts remained below their authorized level. The Analyst believes that the intent language is sound and should be approved for FY 2003.

Mr. Walthers stated that since 1990, DFCM management rates increased by approximately 11.5 percent but are still less than $3.90 per square foot.

DFCM is testing a new program piloted by New Mexico facility managers. This department contracts with private providers for janitorial services and some maintenance needs. With 122 employees statewide operating costs for state facilities remain thirty-seven percent lower than private sector facilities and forty-one percent lower than Federal facilities.

Sen. Bell noted that the budget the Committee is discussing is an adjusted budget. He expressed his hope that eventually the Legislature can go back to the regular way of determining budgets.

Co-Chair Evans commended Mr. Jenkins, Mr. Whitington, all of the Department of Administrative Services, and the Building Board on their excellent service and the outstanding quality of their work.

MOTION: Rep. Buxton moved to accept the Analyst's recommended budget for DFCM Facility Management in the amount of $1,141,500, with 121 FTEs.

The motion passed unanimously with Sen. Dmitrich and Rep. Harper absent for the vote.

3. <u>Debt Service/Bonding Policy</u>

Lynn Vellinga, DAS Finance, was introduced.

Mr. Walthers discussed General Obligation Bonds (Facilities). He stated that during 2002, the Legislature met five times to address budget issues. The Legislature redirected cash appropriations for buildings to other state needs and replaced the funding with bond authorizations As a result of these actions, debt service for FY 2004 will increase by nearly $5.7 million. More than $230 million in general obligation bonds were issued.

The Analyst next discussed Revenue Bonds. Funds expended on Revenue Bonds are considered Dedicated Credits paid to the Building Ownership Authority. Even though the cost of revenue bonds are slightly higher than general obligation bonds, they provide an extra measure of flexibility in dealing with statewide budge needs.

Regarding Highway Bonds, the Analyst stated that Debt Service in FY 2004 will require an increase of Centennial Highway Fund to pay the $97 million due in the coming way. The Analyst is recommending $15,067,400 for the Centennial Highway Fund.

Mr. Walthers stated that Facility debt accounts for approximately forty-four percent of General Obligation Debt Service. He also stated that Facility debt is shrinking.

Regarding Board of Bonding Commissioners, the Analyst discussed Constitutional debt limit and Statutory debt limit. The State's constitutional debt limit caps total general obligation debt at 1.5 percent of fair market value of taxable property. For FY 2003, the statutory general obligation debt limit is $8346 million. Transportation bonds are exempted from the statutory limitation, leaving outstanding general obligation debt of $411.9 million to apply against the limit.

The Analyst explained that debt service is projected to exceed five percent of General Fund/Uniform School Fund/Income Tax collections in FY 2004. This is due in large part to shrinking revenue and expanded debt for highway projects. He stated this is an area of concern. The traditional calculation of debt service as a percentage of general revenue began prior to unprecedented issuance of significant highway bonds. If Transportation Fund is figured into the calculation for FY 1998 through 2003 the average percentage rises to 3.7 percent and the anticipated percentage for FY 2004 climbs to 4.6 percent.

Mr. Walthers continued by stating that construction spending can provide significant impact on state and local economies. The impact comes from the creation of jobs and the purchase of materials, not from the financing structure. As the Legislature considers capital facility and highway projects in 2003, it should be mindful of the fact that an additional $257 million of new debt was authorized in 2002, less than half of which went to new construction projects. More than $160 million in bonds were issued to replace cash in the construction budget in order to provide one-time sources of revenue for other statewide needs.

Mr. Walthers listed four methods of financing to meet state needs:

General Obligation Bonds
Lease Revenue Bonds
Revenue Bonds
Certificates of Participation

Co-Chair Evans stated that the Chairs would be willing to write a letter to the Executive Appropriations Committee stating the need for $5.7 million to reduce the debt service for FY 2004 by that amount.

Rep. D. Clark requested a table showing debt service for the next five years. The Analyst agreed to provide that information.

Mr. Walthers asked Committee members to delete the following sentence from Tab 23, page 21:

> Current statute requires Legislative approval for high cost leases . . .

MOTION: Rep. Pace moved to accept the Analyst's recommended budget for Debt Service in the amount of $201,777,600.

SUBSTITUTE MOTION: Rep. Goodfellow moved to increase the Analyst's recommended budget for Debt Service by the $5.7 million increase in debt service. The amount would be a budget of $207,475,200.

The motion passed unanimously with Sens. Bell and Dmitrich and Rep. Barrus absent for the vote.

4. <u>Archives</u>

MOTION: Rep. Pace moved to adopt the following intent language:

It is the intent of the Legislature that funds for the Division of Archives not lapse for FY 2003.

It is the intent of the Legislature that funds for the Division of Archives not lapse for FY 2004.

It is the intent of the Legislature that funds for the Division of Archives which do not lapse are to be used to catalog documents generated by former Governors.

The motion passed unanimously, with Sen. Dmitrich and Rep. Barrus absent for the vote.

5. <u>ITS</u>

Jonathan Ball, Technology Analyst, stated that he stands by his recommendations regarding the issues of the Statewide Information Technology Review. He has, however, met with the Department of Administrative Services and the Division of Information Technology Services; and they have arrived at a compromise document containing four items:

1. ISF budget, including FTE and FY 2004 Capital Outlay Authorization
2. Appropriation of Retained Earnings
3. Nonlapsing Capital Outlay Authorization
4. Rate Review Intent Language

Mr. Ball commended Ms. Anthony on her response to the Legislative auditor. He read the following paragraph from Budget Analysis Book:

"Following the audit, Department of Administrative Services Executive Director Camille Anthony ordered a full review of all MC 1014 contracts in place at ITS. Ms. Anthony and her staff found that seven of the eight active MC 1014 contracts were issued improperly or had other problems. She then terminated those seven. One of the seven she re-bid to allow time to transition its work products to ITS staff. The eighth contract was allowed to continue through its contract end date in January, 2003. Two of the mission critical functions previously performed under contract, Tiered Support Manager and Product Manager, were converted to full time employment and subjected to a competitive hiring process."

The Analyst distributed the compromise document entitled, "Capital Facilities and Administrative Services Appropriations Subcommittee Action On Department of Administrative Services, Division of Information Technology Services."

Mr. Ball stated that the results of the compromise are:

1. The budget is increased by $336,800 over the Analyst's recommendation. Authorized Capital Outlay is increased by $724,000 over the Analyst's recommendation.
   Retained Earnings is increased by $1,028,800 over the Analyst's recommendation.
2. Money is transferred to the General Fund from the Information Technology Services Internal Service Fund in the amount of $452,000 vs. $1,280,000 recommended.
3. Non-lapsing Capital Outlay authorization will be stated in intent language vs. no non-lapsing recommended by the Analyst.
4. Rate Review Intent Language states that they will begin a review of costs, products, and rates prior to the 2004 General Session.

Steve Fulling, Director, ITS, responded to questions from Committee members.

Rep. D. Clark asked about carry-over authority.

David Lamb and David Fletcher, Deputy Directors, DAS, and Mr. Fulling clarified the carry-over issue.

Rep. Buxton asked for a list showing how the carry-over authority is allocated.

Mr. Fulling stated that revenue must be available to cover Capital Outlay authority.

The Analyst explained that Capital Outlay authority is not cash. It is permission to buy needed items. The funds can come in three ways:

1. Operating revenue
2. Borrowing from the General Fund or Restricted Funds
3. Direct appropriation

Mr. Ball stated that if the Committee approves the items in the compromise document, ITS' budget will continue to increase. Mr. Fulling explained that IT functions have been taken over from some of the agencies, thereby increasing the size and expenses of ITS. The Analyst distributed a graph entitled, "Budget Comparison - ITS vs. State," and explained the historical trends shown on it.

In response to a question on FTEs, Mr. Ball distributed a graph entitled, "Full Time Equivalent (FTE) Comparison: ITS vs. State," and explained the historical trends on it.

There was a discussion on item 3 of the compromise document, “Non-lapsing Capital Outlay Authorization.” Ms. Anthony and Mr. Fulling stated that there is a concern that the intent language doesn’t allow flexibility in managing.

Rep. Buxton proposed to amend the intent language to replace the words, “up to the,” with the words, “and the approximate.”

Ms. Anthony also expressed concern about the list of projects and the amounts assigned to each of the projects on the list.

MOTION: Rep. Buxton moved to accept the following intent language as amended:

> *It is the intent of the Legislature that, on July 1, 2003, all but $4,473,000 in capital outlay authorization provided for FY 2003 and prior years shall Lapse. It is further the intent of the Legislature that $4,473,000 in non-lapsing authority shall be used for the following purposes and the approximate amounts indicated.*

The motion passed unanimously with Sen. Dmitrich and Rep. Barrus absent for the vote.

MOTION: Sen. Bell moved to accept the ISF Budget on the Compromise Sheet in the amount of $5,732,800 for Authorized Capital Outlay and in the amount of $8,850,100 for Retained Earnings, with Total FTEs of 240.

The motion passed unanimously with Sen. Dmitrich and Reps. Becker, S. Clark, Goodfellow and Harper absent for the vote.

MOTION: Sen. Bell moved to accept the recommendation of moving $452,000 from Information Technology Service Internal Service Fund to General Fund.

The motion passed unanimously with Sen. Dmitrich and Reps. Becker, S. Clark, Goodfellow and Harper absent for the vote.

MOTION: Rep. Pace moved to accept the following intent language:

> *It is the intent of the Legislature that the Division of Information Technology Services (ITS), Department of Administrative Services (DAS), and the Internal Service fund Rate Committee begin a review of ITS costs, products, and rates prior to the 2004 General Session. It is further in intent of the Legislature that DAS, ITS, and the Rate Committee report to the Capital*

> *Facilities and Administrative Services Subcommittee prior to the 2004 General Session. It is the intent of the Legislature that rate recommendations accurately reflect the cost of services for which the rates are charged.*

Mr. Ball stated for the record that he understands the last sentence to mean that each rate change recommended would accurately reflect the cost of the individual service for which it is charged.
Mr. Fulling expressed appreciation to Mr. Ball for his hard work and efforts in helping facilitate this compromise.

Rep. Pace also commended Mr. Ball and acknowledged his expertise, efforts, and ability to work with the Department to make progress on these issues.

Ms. Anthony stated that everyone involved has the same goal to provide the best service possible for the State.

5. AGRC

Co-Chair Evans introduced Dennis Goreham, Manager, Automated Geographic Reference Center. Mr. Goreham thanked the Committee members for taking time to visit AGRC. He invited them to call him with any questions or concern they might have. He also expressed appreciation to Mr. Ball for his efforts to resolve issues.

The Analyst stated that AGRC collects digital maps. Mr. Goreham further explained that the Center works with other agencies of state government to collect and retain geospatial data. It assists agencies in culling information from that data using computer applications. It supports the state’s Map Portal.

Mr. Ball stated that he recommends $1,012,100 for the AGRC in FY 2004, of which $660,600 is from state funds. This reflects a base reduction of $16,000 offset by an increase of $300,000 in one-time General Fund revenue as well as an additional $351,500 in dedicated credits revenue previously shown in the Division of Information Technology Services.

Ms. Anthony questioned if this one-time funding could be made on-going at some point. She stated that there needs to be a long-term solution to this funding issue. The Analyst explained that this spending one-time revenue on on-going appropriations creates a structural deficit.

MOTION: Sen. Bell moved to accept the Analyst's recommended budget for the Automated Geographic Reference Center in the amount of $1,012,100, with FTEs/Other of 9.

The motion passed unanimously with Sen. Dmitrich and Reps. Becker, S. Clark, Goodfellow, and Harper absent for the vote.

6. Letters from the Committee Co-Chairs to the Utah State Legislature

The first letter is to Sen. Chris Butters and Rep. David L. Hogue and recommends that the Legislature create a separate line-item for the Chief Information Officer in the Division of Information Technology and approve of an additional $152,000 in one-time General funds for the new line-item in fiscal year 2004.

The second letter is to Sen. Scott Jenkins and Rep. Chad E. Bennion and recommends that the Legislature approve $3,000,000 from Temporary Assistance for Needy Families (TANF) Reserve funds for the Department of Workforce Services' Electronic Resource and Eligibility Project (eRep).

The third letter is to Sen. Stephenson and Rep. Snow and recommends that the State Office of Education collect telecommunications cost and school lunch participation data in pursuit of increased E-Rate reimbursements.

MOTION: Sen. Bell moved to authorize the Co-Chairs to send letters recommending funding for the CIO and the Electronic Resource and Eligibility Project (dRep) as well as collecting data for the E-Rate Project.

The motion passed unanimously, with Sen. Dmitrich and Reps. Becker, S. Clark, Goodfellow, and Harper absent for the vote.

7. Proposed Two Percent Decrease in Funding

Mr. Walthers stated that in his opinion there were three divisions that could not be reduced: Purchasing and General Services, Judicial Conduct Commission, and Administrative Rules. He discussed several other options for finding the decreases. The LeRay McCallister Fund was discussed and the vulnerability of that funding is a concern for members of the Committee.

Ms. Anthony stated that $222,600 could be taken from Risk Management to help meet the decrease. Alan Edwards, Risk Manager, stated that this decrease will not compromise the Division's ability to continue to function properly. She also stated that each Division has been studied for possibilities, and she does not see any other options.

The Analyst stated that $44,000 could be taken from the General Fund and charged to the Capitol Preservation Fund. He also stated that Mr. Hart is out of town but has been consulted and can approve of this move of funding.

Mr. Walthers stated that these amounts together will equal the $266,000 decrease obligation from this Committee. He also stated that he feels this is a good solution to the proposed two percent decrease requested.

MOTION: Sen. Bell moved to adjourn.

The motion passed unanimously with Sen. Dmitrich and Reps. Becker, S. Clark, Goodfellow and Harper absent for the vote.

The meeting was adjourned at 5:15 p.m. by Co-Chair Evans.

The minutes were reported by Bonnie Brinton

Sen. Beverly Evans
Committee Co-Chair

Rep. Loraine T. Pace
Committee Co-Chair